



2002  
Annual  
Report

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Cognizant  
Technology  
Solutions



*Advancing the Advantage of Offshore*



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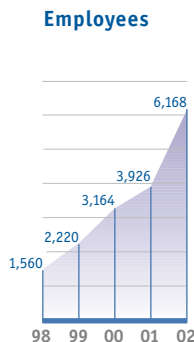
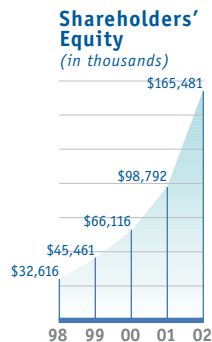
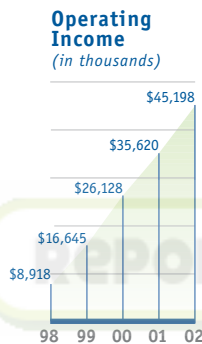
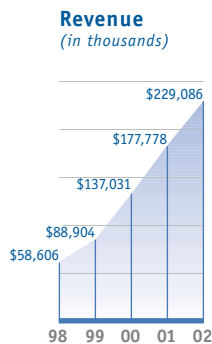
### **About Cognizant Technology Solutions**

Cognizant Technology Solutions (Nasdaq: CTSH) is a leading provider of custom information technology design, development, integration and maintenance services. Focused on delivering strategic information technology solutions that address the complex business needs of its clients, Cognizant provides application management, development, systems integration and business process outsourcing services through its onsite/offshore outsourcing model.

## To our stakeholders:

During 2002, Cognizant continued to achieve record financial and operational results, re-asserting our company's position as a leader in the high-growth offshore IT services industry.

With a deep understanding of the needs of the clients we serve and the industries in which we operate, Cognizant has advanced the advantage of offshore by enabling larger organizations to achieve greater bottom-line and strategic business benefits from their information technology assets. The range and depth of our vertically oriented expertise; our ability to lead clients through change programs that deliver bottom-line results; our ability to quickly ramp up huge teams of top IT professionals; and the quality, speed and cost-effectiveness of our work have made Cognizant the onsite/offshore partner of choice for a growing number of Fortune 1000 companies.



### 4th Generation: Advancing the Advantage of Deeper Partnerships

Consistent with our reputation of staying ahead of the curve both technologically and by maintaining a powerful client-focused corporate culture, Cognizant has pioneered the 4th Generation services model. This partnership-centric model gives Cognizant a distinct competitive advantage in the offshore outsourcing industry. In this new age of offshore, the top management of industry-leading companies is driving larger, more important offshore initiatives, and they are interested only in strategic partners with proven capabilities. Because the stakes are much higher now – with relationships beginning with more strategically central work and quickly ramping up to annual run rates of \$5 million to \$30 million or more – these companies want top-quality providers that are able to deliver multi-million dollar savings fast by quickly moving large volumes of work offshore while driving complex IT and business transformation. Cognizant is one of only a few offshore providers with a proven track record of meeting these demands with stellar results.

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Cognizant's vertical expertise, domain and client knowledge, and top position as an IT and MBA recruiter bolster its ability to support and build business applications that provide meaningful change, supporting our clients' top- and bottom-line growth objectives. Unlike the traditional outsourcing model, our 4th Generation model is flexible and relationship driven, rather than driven by a contract or discrete project. This means that Cognizant acts as a strategic partner, extending and leveraging the strength of the client organization. Unlike most of its offshore competitors, Cognizant makes large investments in client partners, executive management, project heads and practice leaders who are located close to clients in the U.S. and Europe and who are empowered to make key decisions, greatly enhancing our responsiveness and the speed of decision making. Moreover, clients commend Cognizant's unique, people-centric, non-hierarchical, global business culture and "can-do" spirit. The extensive U.S. and European experience of our management in India and our proven soft-skills programs bridge the cultural divide between our clients and our offshore team members to achieve seamless integration, maximum efficiency and outstanding results.

#### Cognizant's Financial Advantage

The broad market acceptance of offshore in key industries and the success of our 4th Generation services model – which we believe has only just begun to tap its potential – both contributed significantly to Cognizant's growth in 2002. We signed 16 new strategic clients in 2002. Strategic clients are those with the potential to achieve an annual run rate of \$5 million to \$30 million or more. In addition, we expanded our relationship with many of our established clients.

#### The Four Generations of Offshore Outsourcing

1st Generation	<b>STAFFING</b> <ul style="list-style-type: none"> <li>• Recruit offshore, staff on client's site</li> <li>• Little cost or value impact</li> </ul>
2nd Generation	<b>OFFSHORE CODE FACTORY</b> <ul style="list-style-type: none"> <li>• No local client interface</li> <li>• Limited to well-defined projects</li> <li>• Communication and quality issues</li> </ul>
3rd Generation	<b>ONSITE/OFFSHORE</b> <ul style="list-style-type: none"> <li>• Integrated onsite/offshore teams</li> <li>• Integrated processes, networks and tools</li> <li>• High-quality for a wide range of projects</li> </ul>
4th Generation	<b>COGNIZANT'S ONSITE/OFFSHORE</b> <ul style="list-style-type: none"> <li>• Business results focused</li> <li>• Client partnership oriented</li> <li>• Help client perform while transforming</li> </ul>

The effects on our financial results were significant. Revenue grew 29 percent to \$229.1 million for 2002 from \$177.8 million for 2001. More than 80 percent of our revenue came from established clients that have been with Cognizant for at least a year. Net income (on a U.S. GAAP basis) for 2002 increased 56 percent to \$34.6 million, or \$0.54 per diluted share (post-split), from \$22.1 million, or \$0.36 per diluted share (post-split), for 2001. Pro forma earnings, which exclude \$1.7 million in transaction costs related to the IMS Health exchange offer in 2002 (explained below), and a \$2.0 million impairment loss on our investment in Qwest Corporation in 2001, rose to \$0.57 per diluted share (post-split) for 2002 from \$0.38 per diluted share (post-split) for 2001. Moreover, Cognizant completed 2002 with no debt, \$126 million in cash and a 68 percent year-over-year increase in stockholders' equity. In addition to our strong cash position, Cognizant's decision in 2002 to no longer repatriate money from India to the United States bolsters our company's ability to invest in growth initiatives.

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During the fourth quarter of 2002, plans were announced to distribute IMS' majority interest in Cognizant. This distribution was completed after the close of the year – in February 2003 – through a "split-off" exchange offer that provided IMS shareholders with the opportunity to exchange some or all of their shares of IMS stock for shares of Cognizant Class B common stock held by IMS, which owned 33.9 million shares (post-split), or about 55 percent of the outstanding shares of Cognizant. All of the Cognizant shares were distributed by IMS, substantially broadening our investor base, increasing liquidity in the stock and enabling us to operate as a fully independent company.

Our accomplishments have also garnered recognition outside of the realm of our prospective and established clients and shareholders. Cognizant was the top-ranked technology company on Business Week's 2002 list of *Hot Growth Companies* and Forbes' 2002 *Best Small Companies* list, and was ranked one of the top-performing stocks for the year on Personal Finance magazine's *Bloomberg 100* list. Cognizant was also chosen as the top pure-play onsite/offshore company on a newly created list of multinational software exporters by the National Association of Software and Services Companies (NASSCOM), an 870-member organization for IT software and services companies in India. In addition, Computerworld, one of America's leading publications for IT executives, selected two Cognizant clients – DFS Group and Mercury Insurance – as Premier 100 IT Leaders. This award honors their creative application of technology in the execution of their business plans – projects in which Cognizant played a significant role. Collectively, this recognition re-confirms Cognizant's reputation as a top-tier company in its peer group.



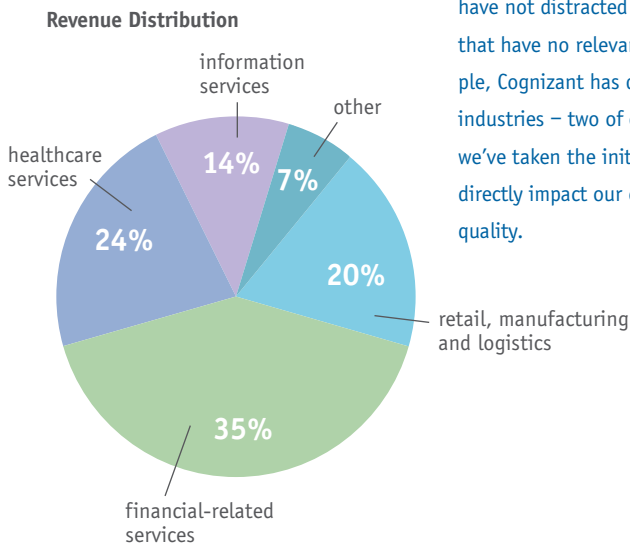
### Advancing Cognizant's Future Advantage

By continuing to invest in client relationships, powerful new services, processes and methodologies, and other promising growth opportunities, we are working to ensure Cognizant's future success. To that end, we have continued to invest for growth pragmatically – in strategies that have proven successful for our company in the past and in new initiatives that we believe will give Cognizant an even greater competitive advantage for the future.

Cognizant took a number of steps in 2002 to provide its clients with a greater selection of higher-value services and world-class processes and methodologies. We offer a full range of large-scale application management and transformation services, including portfolio analysis, rationalization and consolidation, change management, program management and transformational outsourcing. The new Portfolio Analysis and Rationalization Service helps clients cut costs, streamline processes, and boost system performance and throughput by eliminating system redundancies and rationalizing their application portfolios and IT organizations. Using these services, Cognizant is able to provide performance improvements and cost savings that significantly exceed the advantages typically provided by other offshore

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vendors. Our Enterprise Consulting Practice continued to attract new business during 2002 as more and more industry-leading companies sought to improve their business performance with large-scale, strategic business-application projects. The Enterprise Consulting Practice offers technology strategy and architecture consulting; e-business; data warehousing; Customer Relationship Management (CRM); Enterprise Resource Planning (ERP); and a number of other strategic technology competencies. Our Industrialization Service ensures that clients get robust, scalable systems that perform superbly in the most demanding real-world deployments. Cognizant is completely focused on the needs of business end-users who want to drastically cut IT costs while transforming their IT portfolio. Unlike many other offshore providers, we have not distracted our focus by pursuing other businesses – such as telecommunications R&D – that have no relevance to CIOs and business end-users. And our expertise runs deep: For example, Cognizant has developed a comprehensive set of services for the financial and healthcare industries – two of our key verticals – and we continue to expand these offerings. In addition, we've taken the initial steps toward adding Business Process Outsourcing capabilities that can directly impact our clients' business performance by dramatically improving cost structure and quality.



**Wijayaraj Mahadeva**  
Chairman and  
Chief Executive Officer



**Lakshmi Narayanan**  
President and  
Chief Operating Officer



To strengthen our service capabilities for global clients and companies in Europe – a market that we believe is ripe for offshore growth – Cognizant acquired a near-shore development facility in Ireland during 2002. An important step in our international expansion strategy, this facility also allows us to better serve the multi-time zone requirements of many of our large North American clients and to further solidify the business continuity and disaster recovery options available to our global clients.

We also opened two out of three of our newly built technocomplexes in Calcutta and Pune during 2002. These state-of-the-art facilities are company owned, ultimately reducing Cognizant's per-square-foot occupancy expense in India by more than 50 percent.

For 2003 and beyond, Cognizant's prospects appear extremely bright. We are continuing to deepen our relationships with our established clients, and our pipeline for new business remains robust. The mainstream acceptance of offshore in strategic IT initiatives has generated unprecedented momentum in the marketplace. Giga Research predicts that offshore outsourcing will grow at 25 percent annually. Moreover, Europe seems poised for the next wave of offshore growth, and Cognizant is well positioned to lead the offshore revolution for companies in the U.K. and Continental Europe.

We are grateful to our clients for allowing us to prove our value to them, to our shareholders for sharing and supporting our vision for this company, and to our amazing employees, whose dedication to achieving the best results for our clients never wavers. Together, we are advancing the advantages of offshore, advancing Cognizant's advantage in the offshore industry and enhancing the ability of companies throughout the world to compete on a higher level.

Sincerely,

A handwritten signature in blue ink, appearing to read 'W A Mahadeva', with a long horizontal flourish extending to the right.

Wijayaraj Mahadeva  
Chairman and Chief Executive Officer

A handwritten signature in blue ink, appearing to read 'Lakshmi Narayanan', with a stylized, flowing script.

Lakshmi Narayanan  
President and Chief Operating Officer

## Cognizant People Power



Innovative, challenging, non-hierarchical and entrepreneurial – Cognizant's unique global business culture draws the industry's IT elite.

Cognizant has more "people power" than any other company in the industry, enabling us to consistently attract and retain IT and MBA talent and strategic clients. During 2002, Cognizant became the first company to be independently assessed at Level 5 – the highest level – of the People Capabilities Maturity Model (P-CMM) version 2.0 across all of its key development centers in India. The P-CMM framework, developed by the Software



Engineering Institute at Carnegie Mellon University, rates the organizational maturity of people processes and practices. The Level 5 assessment of Cognizant confirms the success of our best-in-class practices for attracting, developing, motivating, organizing and retaining talent.

A number of factors contribute to the organizational success of our people processes and practices. First, we recruit the top IT talent from India's leading academic institutions. Our long-standing relationship with these institutions and our "Employer of Choice" standing gives us the ability to ramp up fast with the best people to meet the growing demand for our services. The most innovative thinkers in the industry – the IT elite – are drawn to Cognizant because it is an organization dedicated to encouraging innovation and providing an environment that is challenging, non-hierarchical and entrepreneurial. This environment is a product of Cognizant's unique global business culture, which combines the best of the U.S., Europe and Asia – as opposed to most IT services companies, which lack the experience needed to successfully drive a unified global culture.

To ensure our ability to operate as a seamless extension of our clients' organizations, Cognizant trains its associates at *The Cognizant Academy*, our in-house corporate university, to develop not only their technical expertise, but also their management, leadership and cross-cultural skills. Our ability to





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successfully teach soft skills and infuse Cognizant's unique culture into our associates' work – despite the rapid growth of our organization – gives us an important strategic advantage. It makes offshore easier to use than ever before, increasing the overall effectiveness and further improving the long-term prospects of our global company.

In line with our relationship-driven model, Cognizant associates focus first and foremost on generating outstanding results for our clients and providing them with an incomparable level of service. Working in tightly knit teams, Cognizant associates are empowered to create and execute new and better ways of serving the strategic needs of our industry-leading clients. It is an inspiring atmosphere

that fosters corporate pride and delivers inspired results. Our onsite and offshore teams become an integral part of our clients' IT departments and significantly enhance their strategic effectiveness. Their value to the client organization increases over time as they become fully acquainted not only with their systems and IT goals, but also with their business goals and the requirements of the industries in which our clients operate. Cognizant's people are very proactive about recommending ways for clients to operate more competitively and execute both their ideas and the clients' initiatives with the type of speed and world-class quality that really drives return on investment.

## *The Ramp Up: Rapid Response to the Demand for Offshore*

Traditionally, service companies spent many years building up their largest relationships. However, with the rapid mainstream acceptance of international vendors, the process of relationship building is now dramatically accelerated, with clients willing to commit to large, complex and strategically important initiatives at the onset of, or only a few months into, the relationship. As Cognizant has ascended the value chain and dramatically expanded its capacity to achieve large-scale business transformations, it has distinguished itself as one of only a few companies in the industry able to ramp up quickly with top IT talent to deliver stellar results at significant cost savings.

The arrangement between Cognizant and MetLife, a leading provider of insurance and other financial services, illustrates Cognizant's responsiveness and success at maximizing the IT and business benefits of large-scale offshore initiatives for its industry-leading clients.

When the relationship began, MetLife was new to offshore. Cognizant met with MetLife's management to discuss the offshore process and guide them in the selection of appropriate applications. Unlike other offshore providers, Cognizant works closely with its customers in leading change and delivering business value, rather than passively executing projects. Cognizant's well-honed processes for offshore knowledge transfer and change

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